

Service Date: June 3, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of The MONTANA)	UTILITY DIVISION
POWER COMPANY'S Application to)	
Convert from Volumetric Billing to)	DOCKET NO. 95.6.26
Therm Billing for Core Residential,)	
General Service and Firm Utility)	ORDER NO. 5860a
Natural Gas Contract Customers.)	

Final Order

1. On June 5, 1995, Montana Power Company (MPC or Company) filed an application with the Montana Public Service Commission (Commission) for approval to convert from volumetric billing (Mcf basis) to therm billing (dekatherm (dkt) basis). A customer at a higher elevation requires more volume (Mcf) to acquire the same amount of heat than a customer at a lower elevation. Under the current billing method a customer at a higher elevation pays more for an identical amount of heat. This billing conversion will correct this situation, and all customers will pay the same amount for an identical amount of heat. Therm billing will also help MPC more closely match natural gas costs with natural gas cost revenues received.

2. The conversion of MPC's gas customer bills from an Mcf basis to a dkt basis will not result in increased revenues to MPC in its Montana service territory. It will, however, result in increased natural gas costs to certain MPC customers, depending on where those customers are located. Likewise, certain MPC customers will see decreased natural gas costs, depending on location.

3. The estimated number of customers (based on average annual customer numbers) whose rates for natural gas service will be affected are:

Residential	111,703
General Service	16,071
FUGC	4

4. MPC requested that initial implementation of therm billing be delayed until the gas tracking year starting on September 1, 1996.

This will allow for a smoother transition and give the Company the time required to convert its Customer Billing System to accommodate therm billing, to revise reporting standards, to educate and train personnel in dealing with customers' questions and problems arising from the conversion, and to educate and inform customers well in advance of any change.

5. In order to convert customer billing to a dekatherm basis, MPC developed twenty therm billing zones for Montana, with sixteen zones handling the majority of MPC's natural gas sales.

6. On June 12, 1995, the Commission issued a Notice of Application and Intervention Deadline. The deadline for intervention was July 14, 1995.

7. On June 30, 1995, Cut Bank Gas Company filed a Petition to Intervene.

8. On July 12, 1995, Montana Consumer Counsel (MCC) filed a Petition to Intervene.

9. On July 26, 1995, the Commission issued a Proposed Procedural Order which set a hearing date of December 12, 1995.

10. On August 4, 1995, Great Falls Gas (GFG) late-filed a Petition to Intervene.

11. On August 16, 1995, the Commission issued Procedural Order No. 5860 which adopted the Proposed Procedural Order. Also on that date the Commission issued a Notice of Staff Action which granted intervention to Cut Bank Gas Company and MCC.

12. On August 25, 1995, the Commission issued a Notice of Commission Action which granted the Petition of GFG for late intervention.

13. On November 15, 1995, the Commission issued a Notice of Public Hearing which stated that the hearing on therm billing would be held at the Commission on December 12, 1995, beginning at 9:00 a.m..

14. On December 12, 1995, pursuant to the Notice of Public Hearing, a hearing was held on MPC's request to convert to therm

billing. No intervenors appeared at the public hearing on December 12, 1995. During the hearing the Commission asked if MPC would be willing to pay \$3,500 per year for Btu testing in each of the twenty zones. The Company indicated that it would be willing to pay for this testing. The Commission also asked if changes to the number of therm billing zones initially set forth by the Company were likely over the next five years. Mr. Hickman stated that in his opinion the therm billing zones would not change.

15. On January 8, 1996, the Commission issued a Notice of Satellite Hearings which set public hearings for: Missoula on January 23, 1996 at 7:00 p.m. and Kalispell on January 24, 1996 also at 7:00 p.m. Pursuant to this Notice both satellite hearings were held to take public comment on this matter.

16. Approximately twenty members of the public from northwestern Montana (Missoula and Flathead counties) either attended the Missoula and Kalispell hearings or wrote the Commission in opposition to the change in therm billing. They asked about the mechanics and verification, and made various proposals. These customers stated their strong opposition to therm billing, based primarily on bill impacts.

17. On January 24, 1996, Dan Whetstone of Cut Bank Gas Company late-filed testimony in this Docket. After a review of this application with MPC Cut Bank Gas Company decided that it would continue to bill its customers on a volumetric (Mcf) basis. Since Cut Bank Gas Company will be able to continue its present customer billing, Mr. Whetstone stated that Cut Bank Gas Company does not object to MPC's conversion to therm billing.

Commission Decision

18. The Commission finds that for reasons of equity in the billing of MPC's natural gas customers in Montana and to more closely match natural gas costs with natural gas cost revenues received, MPC's application requesting a conversion to therm billing is approved.

19. As there are many different gas streams entering the MPC transmission system, the heat content of the natural gas varies throughout the system. To identify the Btu content of the gas for each service area, the MPC transmission system was divided into twenty zones. Each zone represents a section of the transmission system having a unique gas supply and hence its own unique heat content. Exhibit___(DDH-2) identifies the twenty zones and is appended to this Order as Attachment A. The Commission finds that MPC must apply for Commission approval of any zone boundary changes. Generally the Commission directs MPC to follow natural boundaries where feasible and to avoid center lines of streets. The Commission directs MPC to file a current system map of Montana thermal zones. If later boundary changes occur MPC must file an updated system map of Montana thermal zones.

20. The Commission directs the Company to fully communicate with its customers about the conversion to therm billing. Minimally, the Company should include a full explanation of the change via bill stuffers prior to the actual conversion. MPC is directed to make speakers available to various civic groups to explain the conversion to therm billing. If problems develop concerning the conversion, the Commission expects MPC to quickly and professionally work to resolve those matters as they arise.

21. With respect to Btu levels in the twenty zones, the Commission is concerned with the proper frequency of testing, mode of testing, level of Commission involvement and independent testing to verify the accuracy of Company testing. In addition to the Company's testing and monitoring programs, the Commission will contract with an independent testing laboratory to perform two unannounced Btu content tests in each of the twenty therm zones during the winter heating season. These tests are over and above any currently existing Commission testing program. If discrepancies are detected, further testing will be scheduled as deemed necessary by the Commission. The Commission finds that MPC must pay for this program of independent testing, the details of which can be worked out as the conversion is

implemented, and that MPC will fully cooperate with this independent testing program in whatever capacity is necessary for the success of the program.

22. Concerning the Btu content tests, the Commission finds that MPC must provide the Commission detailed monthly, quarterly and annual reports of Btu testing results and the accuracy of MPC's testing facilities in each therm zone, including the methods of testing utilized and MPC's efforts concerning monitoring and verification of testing and the results of testing. The reports should be very specific showing by community where testing has occurred.

23. A safeguard concerning MPC's testing facilities is required. In the event that, for instance, a calorimeter malfunctions, is determined to have erred, or is inoperable, the Commission finds that, for billing purposes, MPC must use the lowest of the previous month's billing factor, the average of the previous six months' billing factors, or the billing factor based on the accurate data available for the month in question. If it is determined that a calorimeter, or other such measuring device, has malfunctioned in the past causing inaccurate billing to the detriment of MPC's customers, then the lowest result of the above three tests must be applied to determine the resulting credit to the ratepayers in the affected zone(s). MPC is prohibited from attempting to collect any revenues resulting from such billing errors to the detriment of MPC, which is consistent with placing the Company, rather than the ratepayers, at risk for the conversion to therm billing. The Commission's approval of the conversion to therm billing is based on MPC's assurance that the conversion will not affect MPC's overall revenue requirement or the revenue requirement of the individual rate classes.

CONCLUSIONS OF LAW

1. The Montana Power Company furnishes natural gas service to consumers in Montana, and is a public utility under regulatory

jurisdiction of the Montana Public Service Commission. Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over Montana Power Company's rates and operations. Section 69-3-102, MCA, and Title 69, Chapter 3, Part 3, MCA.

3. The Montana Public Service Commission has provided adequate public notice of all proceedings and an opportunity to be heard to all interested parties in this Docket. Sections 69-3-303, 69-3-104, MCA, and Title 2, Chapter 4, MCA.

4. The rate structure approved herein is just, reasonable, and not unjustly discriminatory. Sections 69-3-330 and 69-3-201, MCA.

ORDER

1. The application of the Montana Power Company to convert to therm billing is approved. MPC shall file rate schedules and a current system map in accordance with all the provisions of the Findings of Fact in this Order and reflecting the approval of the conversion to therm billing.

2. The Montana Power Company is hereby ordered to comply with all directives of the Commission as described in the Findings of Fact in this Order.

3. The effective date of this Order is September 1, 1996.

DONE AND DATED this 28th day of May, 1996, by a vote of 4 - 1 .

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Chair

DAVE FISHER, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner
Written Dissent - Attached

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

DISSENT OF COMMISSIONER ROWE
DOCKET NO. 95.6.26
ORDER NO. 5860a

This is an unusual case, where the interests of customers within one class dramatically diverge. As a result of the change to therm billing customers at higher elevations gain and those at lower elevations lose. Losers are heavily concentrated in northwestern Montana, Flathead and Missoula counties, although they also exist in smaller numbers in several other areas.

Customers in Flathead and Missoula counties requested public hearings, wrote letters, and contacted me by phone. The public hearings were well-attended and informative. Good questions were asked and MPC worked to answer those questions constructively. Several people had specific requests for information, which was subsequently provided. Others had observations about the possible effect of extreme altitude variations in northwestern Montana within local measurement areas, about the need for verification, about the implications of shifting more revenue recovery to the most rapidly-growing portion of the state, and about other issues. Customers were concerned about the mechanics and reliability of therm billing, and especially about the bill impact.

The observation was made in both hearings that if billing is switched to a heat value basis greater efforts should be made to ensure that end-use customers actually receive the full value. This was said to be particularly true for moderate and low income customers, and those living on fixed incomes. It was said that many of these customers require weatherization, furnace replacements, and furnace tune-ups. Cuts in MPC's weatherization program, other weatherization programs, and fuel bill assistance would exacerbate the effect of a conversion to therm billing.

I oppose conversion to therm billing based on very strong public opposition in northwestern Montana. Public acceptance is a legitimate consideration in rate design-related matters. Unlike Montana-Dakota Utilities, which also uses therm billing, MPC serves a much more far-flung area, with dramatic changes in altitude, and with most of the lower altitude regions concentrated in one part of its service

territory. (This argument could be used on behalf of high elevation areas in support of therm billing.)

At the same time, customers in northwestern Montana should be assured of the following:

1. Both therm billing and the current volumetric billing are legitimate and reliable methods. MPC offered valid reasons for joining the gas utilities which use therm billing.
2. Consistent with suggestions at the public hearings, the Commission is ordering independent monitoring. This has been done with MDU and has produced good results.
3. Consistent with suggestions at the public hearings, any error in measurement will be charged to MPC, not to the customer.
4. Consistent with suggestions at the public hearings, MPC has agreed to restore \$250,000 in weatherization funding which had been removed from its budget, and has agreed to program changes which will make weatherization funding more available to gas-heated homes. This was accomplished through a stipulation in Docket 95.9.128. MPC is already active in assisting to meet the needs of moderate and low income customers, and has committed to work with others to develop new solutions.

The decision in this case will not be satisfactory to many northwestern Montana natural gas customers. Based on testimony at the public hearings, it is not a decision I support. However, customers should have confidence that the method is widely-used, is valid, and will be independently monitored.

RESPECTFULLY SUBMITTED this 28th day of May, 1996.

BOB ROWE
Commissioner